TS6/9/34

6/9/34 (Item 11 from file: 20)
DIALOG(R)File 20:Dialog Global Reporter

09917069 (THIS IS THE FULLTEXT)
Pick of the stockpickers; Weekend Money
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TIMES
March 04, 2000
JOURNAL CODE: FTMS LANGUAGE: English RECORD TYPE: FULLTEXT
WORD COUNT: 1642

In the final part of our three-part series on investment styles, Michael Drewett matches leading managers to their favoured methods

Persistence may be a virtue. But sometimes staying loyal to a money management style can be a mistake. This week saw the retirement of Tony Dye, chief investment officer of Phillips & Drew, a division of UBS, the banking group. Mr Dye, who was responsible for the Pounds 125 billion worth of pension fund cash, was a follower of the value school of fund management, where you buy out-of-favour stocks in the hope of a reassessment of their prospects. He avoided high-tech stocks, a policy that led to underperformance at the group; its flagship fund came 65th out of 66 in a table of pension funds. Despite his departure, however, P&D is staying true to the value style.

Few other firms of money managers will now admit to an attachment to the value principle. But we have attempted to select the principal proponents of the other management styles, such as growth, selective analysis, and seeking out special situations that we covered in our last two articles. Many of the people who manage your money will indulge in a number of these strategies in an attempt to deliver the results that trustees of pension funds and investors in individual savings accounts (Isas) are now demanding.

GROWTH

You would imagine that looking for growth would be the primary aim of every fund manager but the performance statistics show that few achieve this goal. Nigel Thomas has run ABN Amro's UK Growth fund for 13 years and is seen as the growth manager par excellence. His versatility also merits his inclusion in another management style category - Special Situations (see below). The Pounds 212 million UK Growth portfolio is split between large, medium and small companies in roughly similar proportions. Mr Thomas will not buy any company that can simply demonstrate superior growth characteristics. His key is very much in buying at the right price, a strategy that has been rewarding for investors - compound growth is 23 per cent.

He believes that investing for growth is not only about investing in the 'new economy'. Many 'old economy' companies, such as Prudential, Pearson and Reuters, are adapting well to the new world. His management focus is to identify and respond to growth trends in the economy. Ask him where the index might be in six months' time and he would not even hazard a guess because his style is not dependent upon such considerations.

'I believe that the economy will neither become better nor worse, but different,' he says.

Risk is controlled in two ways. Companies selected should have barriers to entry in order that an idea or theme cannot be easily and more cheaply replicated.

SUBJECTIVE ANALYSIS The Lang Approach, has been developed by Jeremy Lang, joint investment director of Lionheart Asset Management. It is a subjective analysis technique that he uses in the management of the Pounds

280 million Liontrust First Growth Fund. His investment philosophy is that the level of a company's profits is not necessarily what moves its share price, but how that company surprises the market with its level of profits.

As stock market analysts play a key role in setting share prices by making forecasts, he examines these forecasts to identify companies that he believes have the ability to continue to surprise the market positively with their profits.

His strategy is, perhaps not obviously, to invest in stocks whose recent profits growth has been greater than the market's expectations.

The rationale for focusing on companies performing like this is that those that have recently surprised the market have a tendency to do so again.He claims that this is primarily because analysts and fund managers often repeat old mistakes as emotion clouds their judgment. He says: 'There is a substantial amount of research from behavioural psychologists that backs this view up.' In particular, people are rather bad at admitting their mistakes.

'When someone forms an opinion, or makes a forecast, they can become emotional about their view, leading them to treat new information in a biased way.

'New information backing up their opinion is leapt upon and exaggerated, while contradictory information is either ignored or twisted.

'If the new information continues to contradict their opinion, then a gradual twisting of their opinion continues so that it eventually fits the new facts.'

The Liontrust First Growth Fund is run in a highly disciplined way. Lang constantly checks for signs of possible forecast downgrades in shares and each quarter the portfolio is 'refreshed' when he reconsiders the risk/reward ratio of every constituent. Lang has been managing Liontrust First Growth Fund since April 1996. Since that time, the fund has outperformed its benchmark index, rising by 107 per cent compared with a rise of 87 per cent in the FTSE all-share.

SMALLER COMPANIES

The CCS UK Smaller Companies Unit Trust, formed by Simon Smith in March 1991, has produced one of the most consistent returns of any smaller companies fund. In October 1999 he was ranked as sixth in the Investors Chronicle top 20 fund managers in the UK.

Since its launch the fund has increased in price by 548 per cent (net income reinvested) compared with 233 per cent for the Hoare Govett smaller companies index, 233 per cent for the FTSE all-share and 242 per cent for the FTSE 100. In 1999 the fund returned 83 per cent and so far in 2000 has returned 23 per cent.

With assets of Pounds 270 million it is one of the largest funds in the sector and invests in a diversified portfolio of 120 companies across a broad range of sectors.

Simon Smith's investment style of the fund is to invest in modern businesses, where the managers believe that the businesses can grow at sustainable rates in excess of 15 per cent a year for the foreseeable future.

There have been investments in Internet infrastructure companies such as Baltimore Technology. Last year it purchased a holding at 494p and sold out at Pounds 71.57 this year.

Other infrastructure businesses include Infobank and Staffware, both e-procurement companies, and the Harrier Group, an Internet security consultancy.

SPECIAL SITUATIONS

Anthony Bolton, manager of Fidelity's Special Situations Trust, is the City's leading special situations manager.

Another well-known figure in this school of management is Nigel Thomas, mentioned previously as manager to the ABN Amro Growth fund but also consultant to the Solus UK, which runs the highly successful Solus UK

Special Situations Fund

The fund produced a return of 127 per cent during 1999, against an average performance in the sector of 25.9 per cent. It was the best-performing fund out of a total of 299 funds and rewarded investors with an increase of more than 250 per cent in their investment over the past five years. In Mr Thomas's view, 'special situations' can be defined as aggressive growth stocks - companies driven by arguments based on value or momentum, recovery situations and new issues.In his role as a special situations manager, Mr Thomas places a great deal of emphasis on getting know the companies in which you invest - at present the fund has only 43 holdings.

This style is in stark contrast to the approach of most large investment houses, which tend to structure portfolios with close reference to the composition of a stock market index.

In this fund, Thomas invests around 3 per cent in each new investment he makes, and is prepared to run with winners and cut any holdings that turn out to disappoint.

The Pounds 17 million fund has been invested in two companies - Arm Holdings and, again, Baltimore Technologies - of which one has already joined the FTSE 100 index, and the other is about to.

Far better to buy when these companies are relatively small and pick up their future growth, Thomas argues, than to buy once they become large enough to feature on the radar screens of the managers of much larger funds.

With investment funds of several billion pounds increasingly finding it difficult to make changes in their underlying portfolio, owing to a lack of liquidity in many companies' shares, Solus UK Special Situations is in something of an enviable position. So much so that Thomas happily admits to having a proportion of his own family's wealth invested in the fund.

Fidelity Special Situations is managed by Anthony Bolton, who makes a point of ignoring macroeconomic considerations altogether. Instead, he concentrates on a series of criteria into which at least one of his definitions of a 'special situation' typically falls. These are as follows:

Turnarounds

Something that has not done well in the past may well do better if fundamental changes are made. This, in turn, often leads to reassessment by investors.

Overlooked growth prospects

Bolton tends not to buy recognised growth stocks. If the market already knows them well, they usually trade on high multiples. He is more interested in good growth potential if it is combined with a temporary undervaluation.

Companies selling below asset value

Bolton buys companies which sell at big discounts to what he personally believes is their true value. One company's assets may be shares in a quoted bigger brother.

A hidden asset, such as the value of a franchise, can also fall into this category.

Out of fashion:

If there is something that deters other investors about a company, it is that some managers have a contrarian instinct that attracts them to its low valuation. This is not necessarily the primary reason for buying it, but it often pays off handsomely.

Industry anomalies

Everyone wants to find an Aston Martin for Pounds 500, but the opportunities are not often obvious, at least not in one's own backyard.

ABN Amro: 0800-092 2090;

Fidelity Investments: 0800 414161; Liontrust Asset Management: 020-7412 1700

COMPANY NAMES: UBS; Phillips & Drew Ltd
DESCRIPTORS: Market Reports; Market News; Equities; Markets; Company Management; Company News; Personal Finance; General News
COUNTRY NAMES/CODES: United Kingdom (GB)
REGIONS: Europe; European Union; Western Europe
SIC CODES/DESCRIPTIONS: 6371 (Pension Health & Welfare Funds); 6371 (Pension Health & Welfare Funds); 6211 (Security Brokers & Dealers)
NAICS CODES/DESCRIPTIONS: 52511 (Pension Funds); 5251 (Insurance & Employee Benefit Funds); 52311 (Investment Banking & Securities Dealing)
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S2        169   S1 AND ((PRICE (2N) SHARE) AND SPLIT)
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             ATED)
S4        115   RD (unique items)
S5         62   S4 NOT PY>2000
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S7       1043   ((FUND OR PORTFOLIO) (S) (DEPOSIT? AND WITHDR? AND SPLIT?))
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S9        327   S8 NOT PY>2000
S10       272   RD (unique items)
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